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SOUND MONEY FOR ALL THE WORLD

MATTER OF OBTAINING IT INVOLVES CAREFUL TREATMENT BUT WE NEED NOT DESPAIR SOLVING THE PROBLEM

By DITLEW M. FREDERIKSEN

THAT the world needs to be straightened out financially needs no argument. Gold payments are virtually suspended everywhere. Result: a fluctuating, uncertain money-medium, preposterous exchanges, even with such a country as Denmark, where a crown is only worth 18c. of United States money, while its gold value in Denmark is 27c. Consumers in part lose this difference, exporters or bankers do not really gain it, as it fluctuates and they cannot depend on it. Prices are unsettled all over the world, there is a shortage both of food and other goods, and the uncertainty arising out of exchange is one added hindrance on the road to reconstruction.

Remember: the United States is financially, economically, the best and richest spot on earth, in money, food and goods. Also, probably the place with least Bolshevik inclinations. Things are worse everywhere else, in some places a thousand times worse. Prices are higher, goods are scarcer, workers have been and are drawing unemployment pensions, which the governments pay in fear and trembling lest they be overthrown overnight, with resulting loot, riots, disorder and murders.

How is the world working out of this? What is the real remedy? Is it being applied?

There are three eventual remedies. The first is not being tried, the second is, the third is not.

The first is the resumption of specie (gold) payments all over the world. Until this is done the world is not sound financially, business is not normal. High rates of exchange, which is a symptom but not the disease, cannot be avoided, but the real disease is shortage of goods, and shortage of employment with resulting high prices. The ultimate outcome of the disease is Bolshevism and the tottering of our very civilization.

Just what would happen if this cure—Cure No. 1—the resumption of gold payments, were applied? Gold would flow out of certain countries until a balance (normal exchange) was established.

What is the present rate of exchange on various foreign countries?

	Actual Gold Value in U. S. Money	Rate of Exchange Aug. 20, 1919	Rate of Exchange Jan. 13, 1920
Austria	20.26	02.38	0.80
Germany	23.82	05.20	2.10
Denmark	26.80	21.46	18.08
France	19.30	12.22	8.94
England	4.866	4.16	3.74¼
Italy	19.30	10.47	7.46
Spain	19.30	19.42	19.10
Holland	40.20	36.40	37.45

The situation is growing from bad to worse.

What is the present gold balance held by leading countries?

Amount of gold in principal banks.

Bank of England (end of Dec., 1919)	$ 444.471.000
Other British Banks	536.233,000
Bank of France (Dec. 4, 1919)	700.504.000
Imperial Bank of Germany (Nov. 27, '19)	265,382,000
Bank of Spain (Nov. 29, 1919)	470,936,000
Netherlands (Nov. 29, 1919)	256,341,000
n[illegible] of Italy (Oct. 31, 1919) (Total [illegible]cie)	299.857.000
[illegible]erve Bank (Dec. 1, 1919)	2,037,530,000

[illegible]dent that to suddenly re adjust world prices in the normal way, by setting this gold free and by substituting redeemable gold paper for the present irredeemable paper currency, which is now in universal use in each and every country, would mean panic and disaster in many places.

If today you could buy a hundred thousand dollar draft on Denmark at 18c. and take the gold back to the United States and get it re-coined there, at this rate you would make $33,000 just by taking this $100,000 across the water and it would only take a week to do it. Should gold payments suddenly be introduced, Denmark and other European countries would thus in a hurry be drained of their gold until prices there should fall enough so they would send us goods instead of gold. Such falling prices—rapidly, suddenly, frightfully—would of course mean a panic, unemployment, paralysis—possibly revolution—wherever this was to happen—but once the panic was over with, and a balance re established, we would again have normal conditions. The debtor countries in Europe would be sending us the goods they owe us each year, goods would be cheaper and more plentiful here, goods would be scarcer, but on the whole at a similar price level over there. The debtor countries would live in poverty until they again had a normal amount of goods and gold on hand.

It should be noted that an adverse exchange does not necessarily mean poverty, as in the case of Denmark for instance. It merely means that Denmark, which is a wealthy country, is giving credit to France and Germany and seeking similar credit here in the United States to be able to do so. Denmark is selling food to Germany on credit and is getting food from us by selling us goods and securities, and the rate of exchange is an inducement incidental to this movement of goods and securities.

The problem in Europe, and everywhere else where prices are high, is to speed up production and produce more goods that are needed from abroad.

But the best cure for it is evidently not to force down the value of paper money over there, by suddenly changing to a gold basis, as this would mean lower prices, panic, unemployment and cessation of production, instead of the increased production that is needed. And while on the one hand in these debtor countries prices must be lowered for export purposes to enable them to sell abroad, their local—home—prices ought to be kept up to stimulate production which the low prices will not do, so the problem is how to do both.

THE remedy the bankers of the world are trying to apply today is the remedy of high exchange. By means of this the local (Denmark) prices (in paper) remain high—but when they come to export their goods they find they can gain about 33 per cent. more by exporting owing to the rate of exchange. When they sell $100 worth of goods to the United States they get back a draft on which they get a 33 per cent. premium in their own depreciated money. This is the plan the world is trying today, to stimulate production by means of high prices at home, in irredeemable paper money, and to

stimulate exports by means of the rate of exchange, until at last, at some far distant date, a level shall be arrived at again and each country's money shall again be worth par in gold, which it is not today.

But will the bankers of the world succeed in leveling out world prices in this manner? I seriously doubt it. The holes to be filled are too deep. The abysses too steep. The productive forces are too paralyzed. The settled orderly motives for hard work are absent, to some extent at least. People want jewelry, pretty clothes, a good time, easy work, big pay. They have seen during the profiteering war times too many get this, so they think all can now get it.

What all normal human beings are planning today is how they can get big pay (or profits), fine clothes, a good time—as others they see are doing—and still not work too hard to produce what it takes to furnish this. So, unless the bankers' plan of stimulating production and exports by means of high exchange profits, can rouse people to greater effort, it would seem as if possibly a panic with actual need may finally become the only remedy. This panic of course would start in Europe, and the United States would, should it come, suffer least of all.

One objection to the present high exchange plan is that it gives the "international" banker and speculator in foreign exchange a rare chance to profit. They make their profit on securities, rather than on the exchange itself, but the profits made by international bankers during recent years on depreciated foreign securities no doubt beggars description, and it will in fact never be known how enormous they really have been. The tax assessor's rolls may furnish some little indication. But what these bankers and speculators are earning the public somewhere is losing—by means of high prices—continued high prices, on what they buy. In fact the abnormal exchange situation is entirely upsetting and altering the normal flow of the world's foreign trade. Witness, the recent arrival of a cargo of butter from Denmark in New York, a transaction made profitable by the rate of exchange on Denmark, but which in itself seems almost criminal, as it means taking food from the starving and dying people of Europe and placing it in a country where food is plentiful.

Furthermore, as exchange fluctuates from day to day, the exporters are at a disadvantage, they cannot figure as closely as they should, they must also profiteer and charge more to provide for an eventual loss on exchange. Hence they do not do their work as cheaply as they should, and the public of course again pays the cost—by means of higher prices on the stuff handled by the exporter (or importer).

These are the two objections to the present plan: First, the bankers' and speculators' grotesque chance to profit; second, the exporters' need to charge a higher price as the exchange will fluctuate and be uncertain. And the uncertain exchange will act as an actual restraint on exporting for fear that exchange may drop and cause a loss. And the worst is that the end is not in sight. How will the world ever get back to normal price level, when each country is on a paper basis of its own, fluctuating from day to day, as the international bankers of New York, London and elsewhere tabulate the results and announce the odds, somewhat as a racetrack bookmaker does with the bets.

The fluctuations in the price of foreign exchange that take place from day to day are of course not arbitrary or whimsical. They are caused by the flow of goods, against which bills are offered in the market, and to an equal or greater extent probably by the sale of securities and the coming to maturity of securities on the different markets. Exchange therefore fluctuates temporarily with the price of goods and the price of securities, but the outstanding fact remains that when you have an irredeemable paper currency the value of this bears a direct relation to its quantity, as compared with the amount of business to be done, so that while the temporary fluctuations are caused by the ebb and flow of business and investments, the permanent level in each country (and hence the average rate of exchange for a longer period of time) is directly dependent upon the quantity of money (including credit), in circulation in each country.

A contraction of money in various countries might therefore bring the exchange closer to a level, but could never bring it to balance.

This was pointed out in Lord d'Abernon's House of Lords speech in November, in which he proved by statistics that the production of staple products of the world in 1919 after all was rather above than below the pre war average, from which he argues that high prices are caused by a plethora of money rather than by decreased production, and Lord d'Abernon in this speech proposes a Royal Commission and also an International Conference to consider the causes of high prices, and the influence of currency on prices. He would have these commissions act as quickly as possible.

In a report issued by the British Ministry of Labor in August, 1919, the percentage of increase in retail food prices since July, 1914, is estimated as follows:

Countries	Per cent
United States	80
United Kingdom	104
France	148
Belgium	233
It ly	167
Canada	81
Australia	35
Sweden	234
Denmark	86
Holland	107

According to Bradstreet's, prices advanced about 2 per cent. in this country in December, 1919; in England twice as much. Rising prices will discourage people from working and saving, and will encourage them to loaf and spend and waste.

TO set gold free, assuming this to be possible, which is very questionable, as the drain would be so enormous, that even the solvent governments would have difficulty in keeping the payments up, is practically out of the question. And if gold was set free it would mean falling—sharply falling—prices over there, and would result in enormous exports to pay what they owe to the United States, which would again result in falling prices here, where the money is due. This, however, would bring the world back to normal, but how long it will take us to reach this result by present methods is hard to see. No doubt vast loan flotations are being discussed to accomplish it. The beginning has been made with the neutral countries, and we in the United States may end by purchasing the bonds eventually both of France, Italy and Germany that are now no doubt to a great extent getting credit from England and the neutral countries. But to place all these foreign bonds in the United State will mean either that the United States Government must take them over, or else it will [illegible] a vast victory loan campaign on behalf of th[illegible] ernments towards which the public, now [illegible] excitement is over, may not be sympathetic.

to cause further inflation and a still higher price level in the United States.

But even if it can be done, it is yet true that to accomplish it by present methods will mean, to use Mr. Bryan's language, "to crucify mankind on a cross of gold," as it will mean at first rising but ultimately falling prices, chiefly and primarily over there, secondarily here. It will mean that debtors in the inflated European, paper money, debtor countries, must borrow at high prices and be repaid at low prices later on. They must pay back two bushels of wheat for every one bushel they got when they borrowed.

It may work out, but to me it seems doubtful if the business community will voluntarily submit to a sufficient reduction in prices to get exports and imports to balance. It can only be accomplished by either vast flotations of loans or by vast merchandise shipments at abnormal prices, and if prices drop sharply it is apt to mean a panic with no work, no food and eventual Bolshevism and revolt.

There is, however, still a third remedy, which is the one I propose to analyze. It is that **the present high prices should be recognized, and that no attempt should be made to force them down in the debtor countries, but that the gold contents of the money of these debtor countries should be reduced and thus obtain immediately a normal rate of exchange and the liberation of gold payments.**

By debtor countries I include England, whose financial status was described by Mr. Lloyd George not long ago as follows (if correctly reported):

"We are not paying our way as a nation. No more serious statement can be made about business or nation. We face a most serious adverse trade balance. For the current year our imports are likely to exceed our exports by $4,000,000,000.

"The most serious feature of the situation is that our present adverse balance of trade is piling up while we are importing practically nothing but necessities—food and raw materials.

"Meanwhile, national expenditures show a vast increase. Interest and sinking fund demands for our present vast national debt will take $2,000,000,000 per year. War pensions, an entirely new expense, will take $500,000,000.

"The only possible way of meeting the crisis is a vastly increased production. Unfortunately, facts are that every line but agriculture shows loss of production. The nation is spending more. It is earning less. The world is suffering from shell shock. We can only now rely on the good sense and firm will of the British people to redeem the present serious and almost desperate situation. Unless we improve matters, there is no other alternative except quitting the country for which we fought for four years."

Such a change as proposed in the amount of gold back of each money unit over there could be accomplished overnight. Practically no one would be inconvenienced. Ninety people out of a hundred would not even know such a change was taking place.

The effect would be twofold. On foreign trade it would at once bring about normal relations between gold and merchandise prices. Specie payments could be instantly resumed, and each country would again have to protect its gold supply as before the war by export of goods or by sale of securities. Trade would, through rising and falling prices, and by credits again be brought to balance. Foreign trade would become normal.

This would in the ultimate analysis mean: First the grotesque variations with high bankers' or speculators' profit on foreign exchange would be eliminated; second, the abnormal bankers' control of foreign trade through their grasp on foreign exchange would cease. Exchange could not, as healthy normal exchange should not, exceed the cost of expressing the gold. The exchange problem would be solved, and exporters would again become more efficient. By this I mean they would study foreign prices more carefully and see where they could export with profit and would know what they could depend on. World prices of goods would again seek and find a level. The various countries would again, by n[illegible]s of foreign tra[illegible] and as fast as shipping permitted, [illegible]e to relieve ea[illegible] the [illegible] needs for goods and foods [illegible]nds.

[illegible] *incide*[illegible] [illegible]achronistic protective tariffs all over the world,—British preferential in Canada and elsewhere included—ought to be abolished. But that is a man-size job for the League of Nations and cannot be discussed here.

The first effect of reducing the gold contents of the monetary unit in the debtor countries would be again to give us a universal world unit of money. The names of the coins need not be changed, merely the gold contents. It could still be called a crown, a shilling, or a franc or a mark, but the actual unit would in fact have to be a cent and a dollar, and possibly it might as well be called so, although it need not be. A smaller unit than a cent would be needed for Europe and China,—a coin representing say a fifth of a cent. The easiest would be not to change the names of the coins, but in changing the gold contents as far as possible the relation of each coin to the dollar standard should be considered, for the purpose of avoiding too inconvenient fractions for the future computation of international foreign exchange. They could call their new units whatever they liked, but the real unit would be the dollar.

The second effect of the much needed change in each of the debtor countries would be that while prices would not fall abruptly and sharply, and while business would continue as usual, so that there would be no sudden deflation, there would still be in fact to some extent an actual scaling or repudiation of debts when the monetary unit was reduced, in gold content.

The great problem of how to pay the vast new national debts of these countries would thus be eased off a little. After all, it is immaterial whether you repudiate the national debt, or whether you tax with one hand and pay interest with the other. Tax exemption, so called, is to some extent an illusion, as no one is in fact tax exempt, except the most sordid miser, who has only income and no outgo, and in fact only he is tax exempt who owns nothing but a stack of exempt government paper bonds in his vault and spends nothing but his bare necessities.

To repudiate by thus leaving price levels in foreign countries where they are, will merely make it a little easier to tax the rich, that will have to pay it anyhow, and to let labor and production go on untrammeled and unchecked by price changes which are apt to lead to eventual panics.

This will not really be repudiation. After all, may it not be fairer not to force the prices down, when debts have to a great extent been contracted and loans have been made under high prices? In the United States, which is at present the only true creditor country of the world, the proposed change of foreign coinages will have no direct effect on the price level, as this is governed here by other things, except that a more normal foreign trade may help readjust things, although it is quite conceivable and probable that in ironing out the world prices the United States price level may yet have to rise still further before it can begin to come down, because only by rising prices can production be speeded up. High prices, high wages, high rates of interest are here to stay for a while at least, and if we are to maintain our place in the world, we cannot and ought not deflate through a reduction of currency volume, but should and ought go to an absolutely free gold basis at once, and from then on let banking credits regulate production and speculation and keep our home prices down by the normal process of denying credits to speculative enterprises.

If honestly and carefully established the rate of exchange furnishes an indication,—is the indication—of relative price levels throughout the world. Sometimes there are no doubt also other elements in it one of which may be speculators' profits. But on the whole it indicates the differences in relative prices and shows where the real poverties and needs of the world are today. Most goods,—dear as they are—are cheaper in America than anywhere else. The rate of exchange thus indicates where it is best for mankind to live at present, and where human effort is, materially speaking, the best rewarded.

Even though this is so, the exact amount at which the gold contents of each monetary unit should be fixed is of course something for each nation to settle for itself. Is Germany, for instance, so bankrupt, that she has to settle at the rate of nine cents on the dollar, which is the present American rate of exchange against her? Would it truly be for England's interest to settle with

her creditors (most of whom live at home, of course) at 76 cents on the dollar? Can France, if Russia pays back to her what the Czars have borrowed and spent on railroads and wars, afford to settle at 46 cents on the dollar, the present French rate of exchange? Would it be possible to scale debts at home by depreciating the currency (in gold contents) though not depreciating it in goods, and at the same time not scale the debts due abroad? Could, for instance, all foreign debts be refunded at a higher rate in the new currency, which would be done once and for all, while the present misery is continuous, or should foreign debts also be scaled by international consent and legislation?

These questions are for each country to settle for itself and deal with diplomatically. But that an international commission should at once come together and consider this for the purpose of acting immediately and in some way get the world back on a gold basis is evident. Unless this is done mankind will flounder and stumble and starve and murder one another much longer than there is any necessity for. The whole world might even turn Bolshevik for a while. It is as when a man who has been on a drunk for a week would on Monday morning, instead of starting to sober up, telephone to his wife that he was going to be on a spree for a few days more.

After all, this plan is what was adopted in recent years when the gold basis was adopted in different countries (India, Austria, etc.). No attempt was made to depreciate the whole price level of the country to adopt the change from silver to gold, but the current rate between the two metals was approximately enacted into law and thus the gold standard put into effect. Why should not this plan be followed now rather than the impractical, thorny path of attempting to force prices down? Who is to be the first one to put his prices down, and so reduce the cost of living? Not I, not I. Let someone else be the first. Far better to recognize the existing price level and stabilize it into gold payments.

It is through international commerce, and through the speeding up of home production, that the relief of the world is to come. How can commerce be speeded up when shackled and weighted down with high exchange? It is like having an extra hundred-pound weight upon your riding horse or like the fable of the man who had the devil riding behind him. The horse felt the weight of the added burden although the man knew nothing about it.

One step more—the resumption of money payments all over the world is needed to make our bankers truly efficient. The high rate of exchange may be compared to a high wall behind which the bankers of the countries with adverse exchange, who ought to be agitating and influencing public opinion and floating foreign loans, are able to protect themselves and conceal their lack of effectiveness. With gold set free the bankers will have to sell securities to keep their gold payments up, and thus only will the securities be sold. To resume gold payments will act as a spur upon the banking community of the world to act quickly and give credits, which is the means by which the world must be rehabilitated.

America's conscience is not so dead as one might suppose from the way people in America are living and enjoying life, regardless of the suffering of the rest of mankind. She is simply ignorant or asleep. With travel set free, speech set free, the printing press set free, so that we may really know how people are suffering,—and loafing—all over the world,—they are doing both—America will no doubt again be ready to subscribe bonds and furnish relief. But it will take both agitation and organization to educate America again to buy the bonds that must be bought so as to give Europe the credits that are needed. The resumption of gold payments will speed the whole thing up as nothing else can.

But before America can feel safe in giving these foreign countries credit it seems as if such countries as Germany and France and Italy should go through some limited form of bankruptcy such as the above proposal involves. England, Denmark, Holland and other countries having adverse exchange should probably do the same. It seems to the writer, that to do this could only improve their credit and would act to keep their credit from sinking lower than it is today. And unless it is done some of these countries may have to work out their own salvation unaided, such as Russia, Siberia and China are doing now, which will mean more, and still more, starvation and misery for their inhabitants.

It seems to the writer as if no one thing could happen in the world today that would be of greater or more universal benefit to mankind than such a monetary reform. It would go such a long way towards real reconstruction, but it must be clear at the outset that the foreign exchange banker and speculator perhaps cannot be expected to support this movement. We cannot expect the druggist to become a sudden advocate of the disuse of medicines.

The home banker or ordinary banker on the contrary has every interest in getting sound monetary conditions established all over the world, but even his sympathies might naturally be against such a reduction in the value of the standard for the repayment of debts even in foreign countries. But it will not affect the financial community in the United States very much, as it is only the debtor countries that will have to resort to it, including in this such countries as Denmark and England, that may be called debtor countries between themselves and us but are creditor countries as between themselves and the really devastated countries of Europe.

The bankers over there also will very likely be against having debts scaled even to a small degree, and as the reform must be done in haste, if at all, is it not hopeless even to propose it?

It ought not be. If three men, Mr. Lloyd George in England, Mr. Wilson here, and I am not clear who in France, would call a conference for the resumption of gold payments, the thing could no doubt be done in a hurry and instant relief be given to the greatest ailment of the world today. By speedy action only can labor troubles, strikes and Bolshevism be avoided.

It is to be hoped that the coming conference of the American Chamber of Commerce, soon to be held in New York, will shed further light and arouse further interest.

One question more: Is not this essentially Professor Irving Fisher's scheme? It seems to me it is at least a long step towards it and a very practical, simple and feasible step towards it.*

To adopt the present level of prices as the basis for the future gold standard all over the world is in effect to take the first step of Professor Fisher's plan, which is to base our money upon goods instead of basing the price of goods upon gold. After having made this change once for the purpose of establishing an international price level, and again getting sound international money for the use of the world all over the world, it would seem an easy matter to make the further change by having by regular process a change in the gold contents of the monetary unit, one or two or more times a year in order that prices shall not fluctuate on account of gold, but shall be based on real goods and labor. Under Professor Fisher's plan the change would take place periodically also in the United States, which the plan outlined above does not contemplate, but it seems to the writer that the plan discussed above if adopted might well become the first step in a monetary reform looking towards the use of goods as a standard for the future repayment of debts, rather than to use a fluctuating metal like gold for this purpose.

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*Since the above was written I have discussed the matter with Professor Fisher, and found him in favor of it, and he has publicly expressed himself to this effect. (Am. Economic Association, Chicago, Dec. 29, 1919.)